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PRICE FIXING IN THE UNITED STATES DURING THE WAR III¹

1. *Chief Purposes in Price Fixing*

PRICE fixing in the United States was almost entirely the product of war conditions. In general, there were three chief purposes in fixing prices: (1) to secure production of needed commodities; (2) to prevent social unrest by checking profiteering, coördinating food prices and wages and stabilizing industrial conditions; (3) to assure government economy, both in buying munitions and in a fiscal sense.

In order to appraise the measure of success and the results of the price-fixing program, it is desirable to present a more detailed statement of the purposes of the price fixers. The con-

¹ Concluded from the *POLITICAL SCIENCE QUARTERLY*, vol. xxxiv, pp. 262-289. Supplementing the first installment of this article, published in the March issue of the *POLITICAL SCIENCE QUARTERLY*, the following facts, which have come to the writer's attention, are worthy of presentation:

(1) The price of silver was fixed by Congressional act of April 28, 1918, which, in dealing with monetary problems, provided for the stabilization of the prices and the encouragement of the production of silver. The act provided for the melting of 350,000,000 silver dollars and the sale of the bullion at \$1.00 per fine ounce, and for the purchase of an equivalent quantity of silver from the mines and reduction works of the United States at \$1.00 per ounce. As a result the price rose to approximately \$1.00. This amounted to an indirect fixing of a minimum price.

(2) The Food Administration, about February, 1918, fixed a price of 9¢ per pound for arsenic. This was done by agreement with the producers, who stated that the price would yield a fair profit. The price of arsenic had risen from 4¢ before the war to 15¢ in February, 1918.

(3) The price of ferro-manganese was fixed for the 70% grade by informal agreement at \$250 delivered.

(4) The prices of several chemicals were "fixed", chiefly for government purchase, among them being the following: Carbon tetrachloride, liquid chlorine gas (7½¢), phenol (28¢ per lb.), picric acid, and formaldehyde (16¼¢ lb.).

(5) The price of toluol was fixed at \$1.50-1.55 per gal.

(6) The War Industry Board, in June, 1918, announced to the naval stores industries that the advance in prices of rosin and turpentine would have to cease.

(7) The Council of National Defense, in May, 1917, by agreement with the leading packers, "pegged" the price of hides for government requirements at the existing market rate.

trol of output may be regarded as the first of these purposes. This may have been the result of a desire either to stimulate the production of war necessities or to check the production of unessential commodities. Its immediate expression, however, was found in the attitude toward profits. On the one hand, the price fixers sought to keep profits up in order to stimulate production, as in the case of timbers, iron, steel and crude oil. On the other hand, they sometimes sought to keep profits down in order to prevent the undue expansion of luxuries.

The prevention of profiteering was a second purpose, back of which lay the desire to allay social unrest. This found expression in such regulation as that of wool prices, the excessive advance of which was due to speculation in a market that was hysterical and artificial.

A third purpose was to control wages. In some cases, where the object was to keep wages up, this found expression in a number of price-fixing agreements, as in the case of copper and coal, which contained clauses providing that no reduction in wages should be made. It will be remembered that a labor representative was a member of the Price-Fixing Committee, and wage questions were in some cases brought before the committee as a factor in the price situation. The wages which it was desired to maintain were "real wages". In fact, a distinct purpose may be said to lie in the desire to keep "money wages" down. Mr. Hoover stated before a Harvard University audience that our entrance into the war had raised the question of controlling our food so as to reduce prices, "for", he said, "unless we can do so, we must meet a raise of wages with all its vicious circle of social disruption". Mr. Hoover is reported to have said also that "the high cost of living must stop, or we must have a continuous ascending wage scale; a continuous increase in wages usually undermines national efficiency". While these two purposes with regard to wages may be, in part, harmonized, it must be concluded that they are, in part, conflicting.

Another distinct purpose was to improve the government's financial situation. This purpose again may be divided into two: (1) to keep government borrowing and taxation down

(a) by reducing profits made by producers and (b) by preventing inflation in prices, thus reducing the government's expenditure; and (2) by increasing the source of taxation from incomes and excess profits. Here again a conflict will be noticed. Taxes might be increased by increasing profits; but if profits should be increased, the price which the government, as a purchaser, would have to pay, would also be increased.

Perhaps a distinct class of cases may be recognized, in which the motive was to "stabilize" the market. On the whole, the cases of so-called stabilization were closely akin to those in which the object was to "stimulate" production, as they were directed partly toward helping the industry concerned or toward preventing a decrease in values when the government had become the holder of a stock of goods through some pooling arrangement or otherwise. Thus the price of hollow building tile was fixed, and orders were distributed, partly with the idea of keeping the plants alive; and the stabilization idea was also applied to the cement industry. This did not necessarily mean high prices, for hollow building tile in the commercial market brought from two to four dollars per ton more than the government price. "Stabilization" in different cases and in different proportions involved: (1) the equalization of prices between different territories (*e.g.*, cement), different products (*e.g.*, cottonseed products) and different producers (*e.g.*, mid-continent crude oil); (2) the prevention of considerable change in price, up or down, (*e.g.*, wheat and silver); and (3) the prevention of decreases in prices, either generally or in particular cases (*e.g.*, hogs).

The idea of allaying social unrest appears in the purposes of keeping "real wages" up, preventing profiteering and reducing government expenses.

From another point of view, the whole price-regulating mechanism was a part of the necessary machinery for the distribution of those necessities which had become so scarce as to be insufficient to gratify the usual wants of the nation. This can be illustrated by sugar and sulphur. In other words, prices were regulated in order to have some fair valuation take the place of normal, competitive conditions which had been lost for

one reason or another. This is the strongest way to put the case in favor of price fixing. In some instances, the government had to buy practically the entire available supply, as was the case with copper. Wherever unified buying on a large scale was necessary, price fixing was called for, since such unified buying virtually amounted to commandeering. Certainly when there is no competition among buyers an abnormal condition exists. Moreover, in some cases, the existence of sellers' monopolies was recognized, and partly on this ground the price of sulphur, nickel and aluminum was regulated. When the market was so affected by panic and speculation as to be highly abnormal, this same result followed. An interesting case is furnished by the wool market in 1917 and 1918. There was no shortage in the supply of wool, and consumption in 1918 was little, if at all, greater, than in 1917. Nevertheless, there was an extraordinary advance in price, due to ignorance and to speculative conditions; and abnormal stocks, of both wool and cloth, were carried by the manufacturers. Under such circumstances price fixing was perhaps needed.

The relation between price fixing and control over the conditions of demand and supply is close and important. If prices are fixed, it may be necessary to control the demand or the supply or both. A low price on sulphur would have invited non-essential uses. The high guaranteed price on tin required a limit of importation. On the other hand, if either demand or supply or both are controlled, it may be necessary to fix prices. For example, the price of rubber was fixed as an incident to a control over shipping and imports. When the government took all of the product, like platinum, or restricted output or controlled priorities, it was natural also to fix the price. It is interesting to note that no appreciable traces can be found of a purpose to control the consumption or demand through price regulation. Prices were not made high to check consumption, nor were they made low to increase the volume of business and thus decrease cost of production. Apparently, as to the reaction of price on industry, prices were fixed with regard to production and supply and were not used as they might have been, as a dynamic factor in the molding of individual demand curves.

2. *Results Obtained from the Price-Fixing Program*

The stimulation of production was one of the chief purposes in fixing prices. And this purpose was frequently realized. Ship timbers were secured in great quantities; manganese ore was developed in a way that would have seemed impossible a few years before; and supplies of quicksilver, copper, steel and crude oil sprang from the ground as if by magic. The magic was the lure of high profits which resulted from high prices. Indeed, it was relatively easy for the government to get results when the object was to stimulate production by high prices, and the greatest measure of success was secured in this way.

The somewhat conflicting object of securing lower prices in order to prevent social unrest, profiteering *etc.*, was not so easy to attain. Some substantial reductions were obtained, however, notably on wool, sugar, sulphuric acid and coal, all of which are important products from the point of view both of war munitions and of civilian cost of living. The price of flour, too, while higher than necessary, was by regulation made appreciably lower than it otherwise would have been. In the case of sugar, during 1916-17, and before government regulation, the price had risen greatly and beyond any justification by increased cost. The Tariff Commission found that the average proportion of the total output of sugar, which was produced at a profit, was about 87 per cent. In 1916-17, however, the figure had increased to 99 per cent. Then came price regulation, and the Commission found that the total output protected from loss by the Food Administration price was reduced to a little over 89 per cent. This was in spite of the fact that the same forces were at work in 1917-18 as had caused the rise in 1916-17. Although the Tariff Commission's figures are not entirely conclusive, for the reason that there may have been a larger number of inefficient high-cost producers in the business in 1917-18 than in the previous year, and that the companies in the two years were not identical, it seems fair, nevertheless, to conclude that considerable results in the way of checking profiteering were secured in this case.

On the whole, it is our well-considered opinion that profiteering, while it existed in 1918, was appreciably less excessive

than in 1917,—a year of extraordinary profits.¹ In part, this fact was due to increased costs and to adjustments in production and consumption; but in part—in the basic, controlled industries—it was due to price regulation. The fixing of prices did not prevent or abolish profiteering; it somewhat moderated the evil.

As to the reduction of the output of unessential products, we know of no case in which this was effectively accomplished by price regulation. Through control of priorities and the lure of cost-plus contracts in other fields the end was attained but not by reducing prices.

There can be little doubt that price fixing helped to raise wages and to keep them up. Indeed, great anxiety was displayed by the government lest wages might be reduced. The insidious cost-plus plan caused the rapid bidding-up of labor, and prices and rates were adjusted to the new wage levels. This sanctioned high wages. We have been unable to find any cases in which money wages were reduced or kept down.

It would be hard to say how important a part the desire to stabilize industrial conditions played in the fixing of prices, but it is certain that this was one of the beneficial results. In a period like that which attended the declaration of war by the United States, there are apt to be extreme reactions in the

¹ The following statement, compiled from Sen. Doc. No. 248, 65 Cong., 2 Sess., is believed to be fairly representative of the percentage of net earnings to investment:

Year	U. S. Steel Co.	48 Lumber Cos.	106 Oil Cos.	21 Copper Cos.	20 Bituminous Coal Cos.	"Big 5" Meat Packers
1913	—	—	—	11.7%	—	6.2- 7.3% ^c
1914	2.8%	—	15% ^a	—	—	— —
1915	5.2%	—	—	—	—	— —
1916	15.6%	5.2%	—	—	20 ¢ ^b	— —
1917	24.9%	17.0%	21% ^a	24.4%	90 ¢ ^b	16.8-26.7%

^a—approximate.

^b—margin per ton.

^c—Average for 1912-1914.

market, accompanied by all degrees of panic and speculation. The fixing of maximum prices may prevent extreme advances and thus avoid such violent reactions as took place in the common zinc industry. In this industry it was found that in the latter part of 1917, no price regulation was required, for the reason that the market price was less than the cost of production, a condition that was the direct result of the extremely high prices which had prevailed a few months previously. The high prices had stimulated production to such an extent that the capacity was in excess of the quantity demanded, and extreme depression followed. When times are more normal, it may be satisfactory to allow price changes to work out adjustments between quantity demanded and output; but in such conditions as existed during the war, it is our opinion that the fixing of maximum prices, if wisely done, is beneficial. It seems clear that this conclusion is illustrated by the case of grade A zinc. Had the price not been fixed, there can be no question but that there would have been a rush to increase the output, with results which would have been similar in kind to those which occurred in the case of common spelter. We know of several companies which were considering going into the field but were deterred by the fact that a maximum price was fixed. Much the same may be said of zinc sheets and plates and of sulphuric acid. The lumber industry also would undoubtedly have undergone a condition of severe depression, had prices been allowed to take the course which the more short-sighted representatives of the industry desired them to take.

Of course, the foregoing applies only to those cases in which the prices would have gone higher than the maximum fixed. It is undoubtedly true that in a few cases, at least, the fixing of a maximum price became the means by which prices were maintained at or near the maximum, which would otherwise have remained at lower levels, or at least, would have done so if effective competition had existed. In our opinion, this is true at least of crude petroleum and certain canned vegetables. Moreover, toward the close of the price-fixing period, the Price-Fixing Committee authorized copper producers to maintain a

price of 26 cents,—if they could,—a fact which probably served to delay somewhat the subsequent drop.

Closely connected with the foregoing results was the moderation of social unrest, which the price-fixing program insured. While it is impossible to measure such a result, there can be no reasonable doubt that the very fact that “something was being done” tended to allay the discontent and suspicion which advances in prices and rumors of profiteering had caused to spring up in the public mind, and the real achievement made in moderating price advances in the case of such commodities as sugar, wool and coal, at least tended to offset the effect of apparently unchecked increases in the prices of cotton, shoes and meats. It may also be surmised that the degree of stabilization insured by the price-fixing program was an important factor in this regard.

The foregoing results were, on the whole, direct, tangible and good. Certain other good results were tangible but incidental. For example, appreciable economies were secured in the distribution of several important commodities, notably coal. By a system of zoning, unnecessary transportation was avoided. Moreover, in the operation of railways much of the wastes through competition in service were eliminated, although it seems probable that at the same time the service deteriorated. Production was made more economical in several industries, as is illustrated by the saving of waste in threshing wheat and by the adoption of devices for recovering potash from the process of making Portland cement.

One of the chief incidental advantages was the introduction of cost-accounting methods in numerous industries. When it became necessary to base prices or profits upon an exact knowledge of the cost of production, the much vaunted efficiency of American business was frequently put in a bad light. The Federal Trade Commission found that in few industries was it possible to ascertain exact costs, except by long and difficult labor. The lumber industry furnishes a good example of one which took advantage of the situation to encourage the introduction of cost-accounting methods. To the extent that American business men were induced to ascertain their costs more efficiently by the war, a notably good result was secured.

Certain intangible advantages may be mentioned here, although it is impossible to measure them. Among the chief of these was the introduction of a spirit of practical patriotism. The business men of the nation were forced to partake in what may be called "social team work", and at least to act as though they were taking a social point of view. Common dangers, common wants, common regulations, inducing common action, were bound to bear fruit. This found expression in the regulations adopted by the various administrative bodies at Washington, such as zone prices and distribution, the stimulation of production according to needs, the checking of production of things not necessary (*e. g.*, alcohol), the recognition of the principle of a "living wage", the prevention of speculation, hoarding, undesirable reselling *etc.* and the equalization of supply (*e. g.*, sugar). To the extent that the adoption of these measures resulted in a real education of those affected, great permanent good was accomplished.

It must be observed, however, that the regulations just referred to were sometimes warped by the acts of the officials who enforced them and were not infrequently evaded. Moreover, they were to some extent offset by the stimulus given to organizations for private gain. One of the most notable results of war-time conditions, which was encouraged by price regulation, was the rapid growth of labor organizations, farmers' organizations and business associations. However desirable these may have been for some purposes, it would have been better if they had had a more normal growth. Under war conditions, too, the trade associations were able to go to great lengths in restricting competition and controlling prices. The result of this has been the establishment of a gild-like organization of industry which may utterly change the competitive system. Hardly an industry of any importance can be named in which an association was not either created or strengthened as a result of the price-fixing activities of the government, and in bargaining with the price-fixing agencies selfish interests were frequently aroused and made effective. By inducing clashes between the interests of particular industries and those of the government, forces tending toward social solidarity were, in part, counteracted.

Moreover, several infant industries were created with the result that selfish interests were called into play. The war stimulated such industries as those concerned with manganese, chrome, magnesite, tungsten and potash, some of which are now insisting upon protection by the government. The attitude of wheat and cotton farmers, too, has not been an entirely healthy one.

These forces tending to counteract social solidarity suggest some of the bad results of price regulation. Probably first among these should be mentioned the perversion of the forces which determine the margin of production, with the result that the weeding-out process in industry was seriously retarded. In several important industries the marginal cost, upon which the price was based, was the cost of an inefficient concern; and prices were fixed so high that concerns which under normal conditions, could not have survived competition, were encouraged. Moreover, the unnecessary utilization of inferior supplies of raw materials and inefficient means of production, was made possible. In the copper and lumber industries, not only were high-cost mines and mills protected, but they were enabled to take advantage of the situation by exploiting low-grade ores and inferior tracts of timber. And cases were not rare in which companies resorted to inferior sources of supply in order to show high costs. At best, price fixing tends to take costs for granted and to prevent that struggle for survival among different methods and sources of supply which is so important in leading to efficiency in production. A more perfect price-regulating mechanism might have minimized this tendency, but to some extent it is an evil inherent in any price regulation.

Another bad result of price fixing was over-capitalization. This would necessarily have attended the advance in prices caused by inflation. The point, however, is that by fixing prices under such conditions, there was a tendency to recognize and perpetuate over-capitalization, a tendency further encouraged by rulings of the Treasury Department which recognized appreciated values set up for such assets as ore and timber. In our judgment, when the volume of the circulating medium or the value of the standard money unit comes to be reduced,

this evil result of price fixing, by making readjustment difficult, will be apt to cause an industrial strain and perhaps even a severe crisis.

In some cases, price fixing resulted in such lack of economy that the average price paid by the government was probably higher than would otherwise have been the case. The adoption of the "cost-plus" idea, by eliminating risk from the producers' calculations, promoted inefficiency. Unnecessarily high wages made for labor inefficiency. Price fixing was used to sanction non-competitive prices at higher levels than conditions of demand and supply would have warranted. The manufacturers of cement, for instance, came before the Price-Fixing Committee with extravagant claims based on cost figures. Nor were they the only ones. In such cases the tendency was to "split the difference". It was common for associations and committees representing them to line up in demanding a certain price and then to maintain the price sanctioned by the price-fixing agencies.

It is probable that discriminations were involuntarily made among different industries. Indeed, it would be strange if there had not been some results of this sort, for no body of men can be sufficiently wise and well informed to prevent their holding some prices down to lower levels than others, especially in the face of the operation of a general force like that of inflation.

Of course, evasion of price-fixing regulations reduced somewhat both the good and the evil results. Professor Warren, of Cornell University, who has studied the price fixing of grain and grain products, maintains that such regulation was ineffective in many cases and that by combination sales and by mixing with other feeds, a price higher than that fixed was often charged. Certainly the control of flour prices by the Food Administration through the regulation of margins, was partly ineffective; and the provision for limiting the profits of the big meat packers to 9 per cent. proved entirely futile, their profits being over 20 per cent. on investment in 1917 and a similar percentage in 1918. On other commodities, sales were made to individuals, who falsely claimed to be government contractors, and frequently when the price was fixed for the govern-

ment only, a virtual evasion was accomplished through sales at the unregulated public prices to persons who were indirectly producing for the government.

At the end of the war, it became apparent that in not a few important cases prices had been fixed at levels which were higher than was necessary. It is a striking fact that in the arguments published by the Industrial Board, Mr. Redfield sanctioned the conclusion that prices during the war had been, on the whole, "fixed" at too high a level. Certainly this opinion was heartily agreed to by the Railway Administration—at least in the case of steel products. It became apparent that costs and scarcity had both been exaggerated, while on the other hand, over-zealous or over-cautious government officials had made unnecessarily large purchases. There was much concern in some quarters about a probable drop in prices, and steps were taken to prevent it. The Copper Producers' Committee appeared at Washington and asked for protection. The Iron and Steel Institute requested a continuation of price regulation. In fact, on November 15, 1918, an agreement was made between the copper producers and the War Industries Board, which amounted to saying that the government would continue to pay 26 cents per pound for the copper for which it had contracted, and that it would sanction the continuation of the prevailing understanding among the producers, according to which they might concertedly demand 26 cents per pound.

Other illustrations of the situation may be mentioned as follows: In November, the committee on cotton distribution ordered that there should be no short selling in the cotton exchanges at New York and New Orleans. In December, the War Department announced that army stocks of materials would be sold gradually, so as not to break the market. Early in 1919, it became apparent not only that there had been no scarcity of tin in the United States when the Inter-Allied Tin Control became effective, but that there was a large surplus. The manganese ore price proved to be so high that the market became over-stocked in the latter part of 1918, and buyers refused to consider offerings at the established prices. As has been pointed out in an earlier article of this series, it proved

difficult to keep up the prices on various cottonseed oil products. Partly as a result of the open winter of 1917-18, it was found that in the fall of 1918 there was a surplus of coal, and the mines were called upon for light production. Even in the case of steel, there was, as a matter of fact, a good supply, and at the end of the war neither the railways nor the mines had to rush into the market for large quantities. It seems that those in charge of the shipbuilding program and of the ordering of steel for the Navy and for France, constantly insisted on steel shipments much in excess of current needs, which resulted in an accumulation of that product.

It cannot be denied that it was well to play safe and to allow for a possible continuation of the war. Also, by economical methods, considerable savings in consumption were effected. Nevertheless, it is our conclusion that the prices of several important regulated commodities were probably somewhat too high at the time the armistice was signed. It may be that the *Engineering and Mining Journal* put the matter too strongly when it said, "Junior officials, without any thoughtful estimates of military consumption, bought recklessly of goods produced by labor at a fantastic wage scale" (Feb. 1, 1919) and that the armistice found the United States overbought in nearly every commodity. While there was probably something of this sort, we would emphasize, as the seat of the trouble, the fact that in fixing prices inefficient producers were kept alive by accepting an unduly high marginal cost.

3. *Criticism of the Chief Price-Fixing Agencies*

The work of the Price-Fixing Committee of the War Industries Board was in the main a "trading proposition". While considerable pressure could be, and in some cases was, brought to bear upon an industry, there was generally an effort to reach an agreement, in which considerable bargaining was used. The Price-Fixing Committee knew that the government must depend upon the cooperation of the industry in order to prevent evasion and to secure the service which was so important. The industry knew that the Price-Fixing Committee had great power through control of priorities and of public opinion. Various factors

affected the situation as the different bargains were driven. Sometimes a particular government department, such as the Navy, was immediately interested in securing a lower price, and then the tendency was for the Price-Fixing Committee to drive a sharper bargain. If there was considerable public interest in the price, the article concerned being of wide, general use, the same tendency existed. If the quantity involved was small, no great part of the total output being concerned, it was easy to reach an agreement, and in such cases concessions were sometimes made to the government, while in others, possibly the government did not make so careful an investigation or attempt to ascertain accurately the lowest possible price. One of the most important factors in the bargaining was the degree of organization of the producers. Those industries which presented their cases before the Price-Fixing Committee through a well organized committee, or even a single individual, were apt to secure better results from their point of view. This is well illustrated by the fact that the Southern Pine Association secured prices which were not so close to cost as were those secured by the relatively unorganized representatives of the western logging and lumber companies. Finally, the practicability of commandeering the plants of the producers played an important part. When the Price-Fixing Committee knew that there were thousands of small plants, it felt that its dependence upon the good will and cooperation of the industry was greater than in other cases where government operation was more practicable. An extreme illustration of this occurred in the reluctance of the Price-Fixing Committee to take up the matter of wholesale and retail prices on such commodities as lumber.

A large part of the work of the Price-Fixing Committee of the War Industries Board was in effect equivalent to giving representatives of the industry concerned considerable authority to get together and agree upon a price which would insure profit to most of the producers. A maximum price was named, and those engaged in the industry then lined up and charged the maximum price. Witness the situation in copper, cement and steel.

Naturally enough, with this condition of bargaining and "agreed" maximum prices, the prices of certain things were fixed too high. This sometimes occurred for the reason that the price was named as a mere maximum, while in reality it was also a minimum. But the chief trouble was that the marginal cost was too liberally construed. Generally it included large salaries for officers and directors (containing an element of profit), as well as liberal allowances for the replacement of raw materials owned on the basis of market value. Generally, too, the risk of loss was largely removed by the price-fixing operation,—aside from an uncertain future element owing to doubt as to the duration of the war. Above all, a profit was allowed to the marginal company, for there was added to the marginal cost an allowance of 10 per cent. on investment, considerably more than interest. A marginal company, under competition, gets no differential profit; the efficiency differential is secured by low-cost companies only. To add to all this, the 10 per cent. allowance was generally figured on a capital investment which was in excess of the true net investment. Indeed, the investment was not determined at all in some cases. It is no wonder, therefore, that prices were fixed at too high a level. This found expression in the utilization of inferior natural resources by many companies.

Surely there is some limit to the justification of profits on the ground of marginal cost. Take any case in which there is known to be profiteering. If no limit is to be placed upon marginal cost, it would only be necessary to start up some extremely inefficient plant in order to obscure the whole situation. Good work was done by the Price-Fixing Committee in eliminating from consideration abnormal plants or companies, but in our judgment not enough of this was done. In determining the margin, the proportion of the total product produced at a cost above the marginal cost should be considered, together with the history and efficiency of such submarginal operations and also the possibility of securing the total necessary supply from supramarginal companies. In a word, the agencies acting for the government should have exhausted every effort to secure as much as possible of the necessary supply from low-cost companies and to that end should have brought more pressure

to bear by refusing to consider small high-cost companies and by *demanding the maximum output from low-cost companies*.

The policy of "stabilizing", which is closely related to the vicious idea of "keeping business as usual", tended to keep the inefficient alive, thus guaranteeing higher and higher differentials in industries which required no stimulation, (*e.g.* lumber and cement). This made the consumer carry the burden of the overhead expenses of unnecessary plants and prevented the concentration of the factors of production at points where they would be most effective.

The failure of regulation to hold prices to a closer relation to cost, enabled the accumulation of enormous surpluses or reserves in the hands of powerful low-cost companies. These they can use to tide over lean years during which weaker companies will fail. It would possibly have been a kinder and more wholesome policy to have used the knife more freely.

A large part of the activity of the business men who represented the War Industries Board in its price control, was unconsciously directed toward protecting the industry against what they believed to be drastic regulation and demoralization. Immediately upon the signing of the armistice, these men felt greatly relieved and proceeded to various points on the coast of Florida. This helps to explain why the Industries Board disbanded so promptly without taking steps to regulate prices during the transition period. One cannot but wonder why, if price regulation was regarded as a good thing and had been well done, it should have been dropped so incontinently. The period of transition to peace was a delicate one in which the stabilization of prices was desirable. The conditions existing in October, November and December, 1918, were as much war conditions as those which had existed in July, August and September. Why, then, did the War Industries Board practically cease to function?

We shall not undertake to criticise the work of the Fuel Administration on coal prices further than to say that in our judgment, the chief error lay in the precipitous attempt to fix prices at the beginning without sufficiently detailed information as to

cost. This resulted in fixing uniform prices for large areas within which conditions differed widely. As time went on the work was more and more carefully done. A few words should be said, however, concerning the work of the Oil Division of the Fuel Administration. This furnished an illustration of unusually close cooperation between the industry and the government, and its operations were controlled by men who were personally interested in the industry. Certainly, its work was effective in securing the needed supply of products, which was the chief end to be accomplished. It is a fair question, however, whether the same quantity of oil could not have been secured at less cost to the government and the people. The last advance in crude oil prices was, in our opinion, entirely uncalled for, and this opinion is shared by many oil producers. Indeed, the advance was not made as large as that which the Oil Division had originally intended. The principal factor in oil scarcity was not the price but a shortage in equipment and transportation. It is our opinion also that the figures given out by the Oil Division did not always convey a correct impression. For example, the same argument for "gasless Sundays" that was made in 1918 could have been made in any year from 1914 to date, as it is always the case that surplus stocks of gasoline are accumulated from December to April, and that such stocks thereafter decline until the fall months, when the refineries run practically from hand to mouth. Moreover, it is doubtful if the figures showing a great decrease in crude oil storage after June, 1918, can be justified, a sudden decrease of approximately three million barrels being indicated which cannot be explained by the export figures. Finally, the public was led to believe that the stationary price of gasoline was an achievement, while as a matter of fact, to hold gasoline prices up at the same time that the prices of fuel oil and lubricating oil were greatly increased, was virtually equivalent to advancing the price of gasoline. The oil industry, with the exception of cotton, was the one great basic industry of the country for which there was virtually no price regulation. This was the achievement!

With regard to the Food Administration, it must be said in advance that the problem was peculiarly difficult, as it involved

prices to the consumer, and almost every case was one in which there were substitutes. Nevertheless, as long as the attempt was made, it must be judged, and it is a fact that the Food Administration's price regulation illustrates too many of the evils of the so-called "cost-plus basis". The attempt was made to regulate margins, and, especially as fixed margins were named, much manipulation of accounts was invited. Little was done, however, to determine costs. The object was, largely, to impress the public and to allay social unrest. Prices were agreed upon at conferences between groups of interrelated industries and were fixed on a rough and ready basis, dependence being placed upon what had been the usual return in the past. Any one will look into the results of price regulation in the case of flour and canned goods (vegetables, fruits and milk) will find how unsatisfactory the results were. In the case of canned milk, for example, the price of raw milk was not fixed. Manufacturing costs were not checked. At one time, as high as 50 cents per case of "talls" was allowed. The price of interrelated products was not controlled, as a result of which cheese makers could not afford to pay the price for milk that the condensers could pay.

On the whole, it may be said that price fixing in the United States suffered from the lack of a program. No adequate study was made of interrelations between commodities or of the various complicated factors affecting demand and supply. No general principles were formulated. Too frequently, each step was taken up as a separate proposition. Much trouble would have been saved by a better understanding among the different price-fixing agencies and by the adoption of certain broad fundamental principles, such as the basis for determining marginal cost ("the bulk line figure") and the basis for determining investment.

There should have been a general board of strategy to supervise the entire price-fixing program and to coördinate it with the government's fiscal arrangements and with the various steps taken to control production and consumption through priorities and rationing. Some progress was made in this direction, as has been pointed out in a preceding installment of this article.¹

¹ *POLITICAL SCIENCE QUARTERLY*, vol. xxxiv, pp. 115-118.

But it remains true that the price-fixing operations were not sufficiently correlated with taxation and borrowing (inflation) on the one hand, and with rationing and priorities on the other. The price of eggs *e. g.* was regulated without regard to the price of hen feed, with the result that hens were slaughtered. The price of wheat was fixed without fixing the price of other grain substitutes therefor. The price of coal was fixed, but not of fuel oil; of cottonseed, but not of cotton,—while a different body, actuated by different motives, fixed the price of cotton linters. After all, price fixing, control of production and consumption, taxation, and government borrowing, all are concerned with price, and all affect the adjustment of labor and capital, saving and the distribution of wealth. The lower the price and profits, for example, the less the inflation required, while not only is the source of income taxes reduced, but also the need for such taxes.

As a result of not coördinating price regulation with taxation policy, conflicting purposes were allowed to function, loose methods were encouraged, and prices were not so carefully fixed, nor taxes so carefully applied, as would have been the case had the two matters been considered together. This fact is concretely illustrated by the virtual clash between the “cost-finding” principles of the Federal Trade Commission and the rulings of the Internal Revenue Department with regard to the determination of investment. The lack of coördination between price regulation and the control of demand and supply is illustrated by the fact that prices were sometimes raised unnecessarily when the real need was for priority (*e. g.* oil); and, in the case of cement, prices were actually raised to keep plants alive, while at the same time the output of the industry was curtailed by a reduction in the coal allowance. When the whole price-fixing and industrial-control “program” is regarded as it should be, that is as a national policy, it becomes apparent that it was highly opportunistic. While intimidating some to observe retail grocery prices and to buy liberty bonds, while compelling some to live up to the rationing regulations concerning sugar and flour or to sell at prices carefully fixed on the basis of cost, the government was appealing to others on the score of patriot-

ism and was virtually bribing still others through high profits and was facilitating the whole scheme by the dangerous expedient of continual inflation.

4. *Conclusion*

It is our conclusion that price fixing is, in war time, a necessary evil.

In the first place it is necessary. The chief grounds of necessity, some of which did not have much influence if any, were as follows: (1) To replace competition where this force disappears or becomes abnormal. Unified government buying increases the field of monopoly, and conditions of ignorance and panic make a reliance upon the forces of demand and supply in many cases impracticable; (2) To serve as part of a system of control of demand and supply. The use of priorities, rationing *etc.*, causes changes in demand and supply forces which require an appropriate adjustment in prices; (3) Price fixing in the shape of a guaranteed price is necessary in some cases to insure the adequate production of needed commodities; (4) Price fixing may be used to advantage for the purpose of stabilizing markets when such markets would otherwise take on a "run-away" condition.

Nevertheless, price fixing even when necessary in time of war, is an evil or at least has its evil side. Any price fixing is bad in the sense that some of the advantages of free competition are abandoned, the most notable loss being that of the "weeding out" process which attends competition. As a result, there is no guarantee that the margin of production will be economically determined. The adjustments required among different industries are also sure to involve some which are discriminatory in character.

The evils of price fixing may, in our opinion, be reduced to such a minimum that *in war time* the advantages gained thereby outweigh the disadvantages. On the whole, it is our opinion that such was the case in the United States, but that the balance in favor of the price fixing was, on account of the way in which it was done, much slighter than it should have been.

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